

In re )  
 ) D.P.U. 96-50  
Boston Gas Company )

United States Gypsum Company ("USGC") hereby responds to the December 19, 1996 Motion for Reconsideration, Clarification and Recalculation filed by Boston Gas Company.

The Settlement submitted a reasonable option for a

fixed transportation rate for IT customers, which was supported by Boston Gas and every major representative of consumer interests. It should not be disregarded.

Moreover, the uncontradicted evidence shows that the State of Massachusetts is economically harmed by leaving IT customers to pay value of service rates, which are determined based on Boston Gas' monopoly power to extract the highest possible revenues from those customers. (See USGC-1, Tr. 17-17 to -20, 17-41 to -42.) Value of service pricing represents pure monopoly pricing of gas delivery service (USGC-1 at 8); it is far worse than USGC and similar manufacturers face in other states (Tr. 17-13 to -14, 17-17, 17-25 to -26); it has effectively deprived USGC and other Massachusetts IT customers of the very substantial economic benefits that industrial and commercial consumers in other states have received from upstream gas-on-gas competition (USGC-1 at 3-5, 10; Tr. 17-26, 17-33 to -34, 17-37 to -38); and, it has caused USGC to reduce its wallboard production in Massachusetts in favor of production using lower priced gas in other states (Tr. 17-14 to -20, 17-41 to -42).

In addition, the record shows that the Settlement's proposal for a fixed price option for high load factor customers of \$.30/MMBtu more closely parallels experience in other states, better reflects the reality of interruptions, and still allows Boston Gas to recover more revenues than it needs to cover the actual costs of performing interruptible service.

2. USGC also agrees with Boston Gas that it makes no sense for the Department to delay approving a reasonable maximum IT rate based upon the possibility that the Federal Energy Regulatory Commission ("FERC") may someday act on the concept of lifting rate caps in upstream pipelines' secondary markets. Since the Department issued its order, FERC rejected most proposals -- including Boston Gas' proposal -- for "pilot projects" to implement deregulation of secondary markets. This is the type of post-record action warranting reconsideration.

Further, FERC is unlikely to act any time soon on general proposals to lift secondary market price caps. FERC's general inquiry into standards for lifting secondary market price caps is not likely to yield a rule until after completion of the few approved, one-year pilot programs. Even then, case-by-case evaluation of markets will be needed before FERC eliminates secondary market rate caps on any pipeline.

In any event, FERC action on the issue of eliminating caps in upstream secondary markets does not alter Boston Gas' monopoly on gas transportation in its local distribution market. There are no other transporters of gas behind Boston Gas' city gate. Boston Gas has no competition now; and, it will have no competition behind the city gate in the future, whether or not FERC lifts caps in upstream markets. Consequently, it is not reasonable to defer approval of a maximum IT rate for deliveries of gas behind the city gate until after FERC action on secondary

market price caps.

3. Although USGC joins Boston Gas in favoring prompt approval of a \$.30/MMBtu rate option for high load factor IT customers -- based on the record and the Settlement --, USGC does not agree with Boston Gas if the LDC is intending to suggest that the intertie between IT rate maximums and base revenues is such that failure to address this issue now would mean that the Department could not address the issue later. It is unclear whether Boston Gas intends to imply that action on fixing a rate cap must be now or never; however, USGC submits that while immediate approval is far better now than later, approval in the future would nevertheless be better than never -- assuming there is anything left to Massachusetts' industrial base when it finally gets around to protecting IT customers from Boston Gas' monopoly power.

Respectfully submitted,

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January 16, 1997

CERTIFICATE OF SERVICE

I certify that I have this day served a copy of the foregoing pleading upon all parties on the official service list in this proceeding.

This 16th day of January, 1997.

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William H. Penniman